

# **EXHIBIT I**

**From:** J. Ezra Merkin  
**Sent:** Mon, 15 Mar 2004 23:26:31  
**GMT**  
**To:** AUTERA, MIKE  
**Subject:** Ariel/Amber and Ascot

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-----Original Message-----

**From:** Igolnikov, Roman [mailto:RI@UBPAM.COM]  
**Sent:** Saturday, March 13, 2004 2:08 PM  
**To:** J. Ezra Merkin  
**Subject:** Ariel/Amber and Ascot

Ezra,

Just in case I attached the latest letter from the other feeder into Bernie. I appreciate very much your effort in putting our meeting together. I feel fortunate having been able to develop friendship with you that was clearly the catalyst for setting up the meeting.

As for Amber and Ariel, I would like to have the following info:

- presentation of the investment strategy, specification of assets (not just distressed debt, but what kind of debt - public/private, senior/subordinated, bank debt, stage of bankruptcy, geography), themes in the portfolio, typical number of trades in the portfolio, rate/return objective - for the fund and for each of the themes, risk management (position limits, stop losses);
- monthly track record;
- terms (fees, liquidity, share classes);
- third party providers (primarily administrator and its role);
- AUM (both domestic and offshore);
- your assessment of the opportunity (current level of credit spreads and falling default rates);
- anything special about the funds.

Thanks a lot,

noble

## Fairfield Sentry Fund

### Semi-Annual Update – Sentry Class A

Fourth Quarter, 2003

January 28, 2004

Dear Investor:

Fairfield Greenwich (Bermuda) Ltd. ("FGBL"), the Investment Manager of Fairfield Sentry Ltd. ("Sentry," or the "Fund"), and Fairfield Greenwich Group ("FGG"), of which FGBL is a member company, are pleased to provide you with the following fourth quarter 2003 update on the progress of the Fund. The next semi-annual update will be distributed in July 2004.

Throughout its 13-year history, the Fund has offered investors a low volatility strategy with little correlation to traditional asset classes with which to protect and grow their capital. It has delivered superior risk-adjusted performance through several market cycles and has done so with only seven down months in its 156-month history.

#### Overall Performance

During the 12-month period ending December 2003, Sentry Class A posted a return of 8.21% net to investors with a standard deviation of 2.33 (see Table I). Although the performance of the Fund in 2003 has lagged that of previous years on an absolute basis, it has remained remarkably consistent over time when measured relative to short-term interest rates. Figure I plots the compounded return of Sentry A relative to the compounded return of one-month USD LIBOR. We see that Sentry A (the solid line) has, since the Fund's assets topped \$100 million in 1993, consistently returned on average more than 7.00% over USD LIBOR (the dashed line).

**Figure I: Sentry A Returns vs. LIBOR**

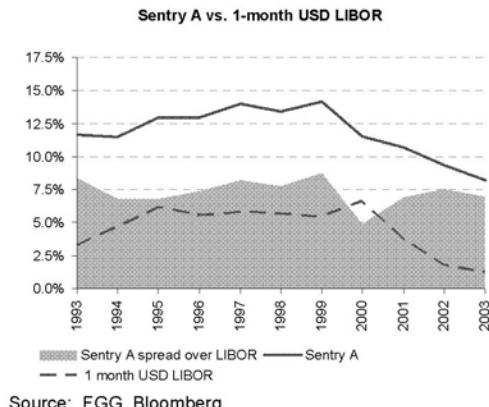
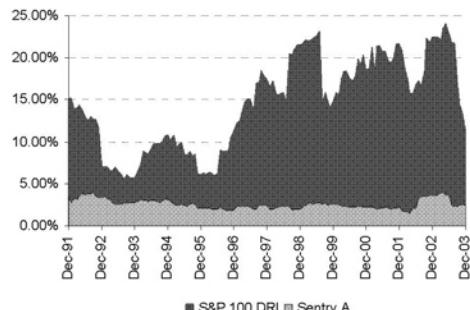


Figure II displays the trailing 12-month rolling standard deviation of Sentry returns against that of the S&P 100 Index, and Figure III plots the trailing 12-month Sharpe Ratio of the Fund against the Sharpe Ratio of the S&P 100 Index. Both charts communicate the relative out-performance of the Fund over time.

**Figure II: 12-month Rolling Standard Deviation**

Sentry Class A vs. S&P 100 Index



Source: FGG, Bloomberg

Sentry's split-strike conversion strategy (the "Strategy") entails the purchase of a basket of about 40 to 50 large-cap U.S. equities drawn from the S&P 100 constituents and the simultaneous purchase of S&P 100 Index put options with approximately the same notional value as the basket of equities. The same number of S&P 100 Index call options are then sold to partially finance the purchase price of the put options and increase the standstill rate of return.

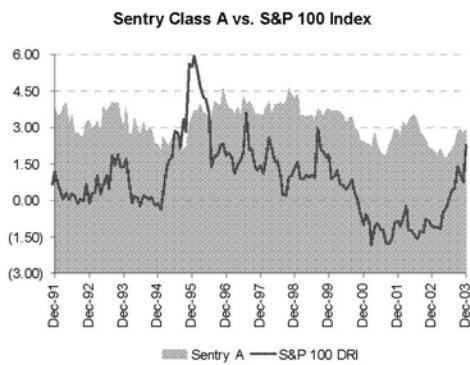
## Fairfield Sentry Fund

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During 2003, the strike prices of both options have typically been one strike out-of-the-money (OTM) at the time the basket was constructed and have always been for front month expiration.

**Figure III: 12-month Rolling Sharpe Ratio**



Source: FGG, Bloomberg

The basket of equities is constructed with the purpose of emulating the return of the S&P 100 Index without purchasing the full index. In fact, it exhibits a correlation to the S&P 100 Index in excess of 95%, and represents a market capitalization of at least 75% of the market capitalization of the S&P 100 Index at the time of construction.

The Strategy was implemented during two-thirds of the trading days in 2003, with some level of investment occurring in each month except for April. There were a total of seven separate implementation cycles in 2003 during which the equity basket and options collar were constructed. On four of these occasions the options collar was rolled to the following month's expiration. This level of activity was slightly more than that of previous years.

For the fourth quarter of 2003, Sentry generated over \$84 million in gross trading profits from the split-strike conversion strategy, with equities contributing about 70% of the gains and the options positions contributing about 20% (See Figure V). Overall in 2003, Sentry added over \$410 million to P&L before fees, with all securities components posting profits (see Figures V and VI).

**Figure IV: Sentry Returns vs. Benchmarks**

	Q4 2003	2003 Annual	Risk <sup>*</sup>
Sentry <sup>**</sup>	1.57	8.21	2.33
S&P 100 DRI	11.06	26.24	10.74
Lehman Aggregate	0.35	4.35	5.49

Source: FGG, Bloomberg.

<sup>\*</sup> Risk is measured by trailing 12-month standard deviation

<sup>\*\*</sup> Sentry performance relates to Class A shares.

### Portfolio Activity

In October 2003, the Fund legged into a fully invested position in the Strategy in three roughly equal increments early in the month. The Strategy was rolled one day before options expiration to higher strikes and held through the end of the month, returning 1.32% in October. November trading activity consisted of unwinding the equity positions and the options collar during the week of options expiration in four roughly equal increments. The Fund then purchased U.S. Treasury Bills with the proceeds. The Fund returned -0.08% in November. In December, the Fund invested about 22% of the assets in the Strategy and held this partially invested position for about a week, unwinding the basket of equities and option hedge just prior to expiration, and then maintained an all-cash position for the remainder of the month. For December, Sentry's net return was 0.32%, and 1.57% for the fourth quarter of 2003.

Overall, the Fund captured slightly less than a third of the 26.24% move in the S&P 100 during 2003, with about one-fifth of the volatility of the Index (See Figure VII).

## Fairfield Sentry Fund

Semi-Annual Update – Sentry Class A

Fourth Quarter, 2003

Figure V: Income Summary for Fourth Quarter 2003

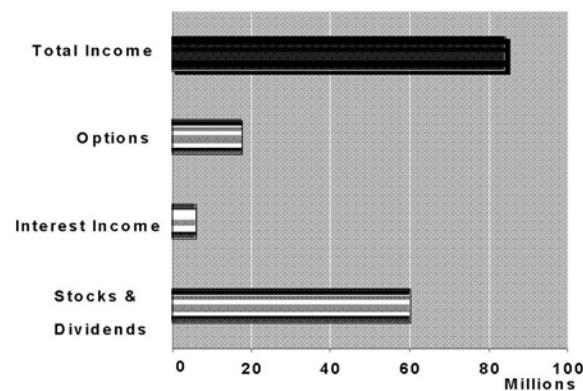


Figure VI: Income Summary for Fiscal Year 2003

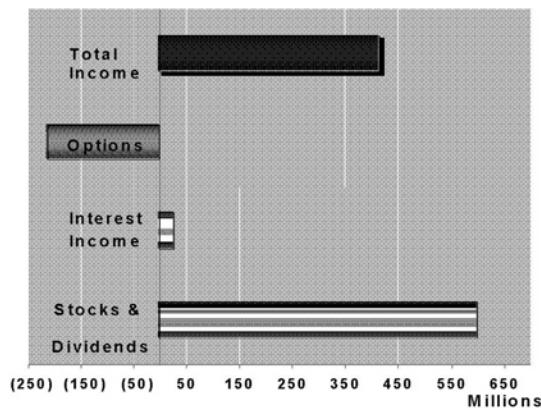
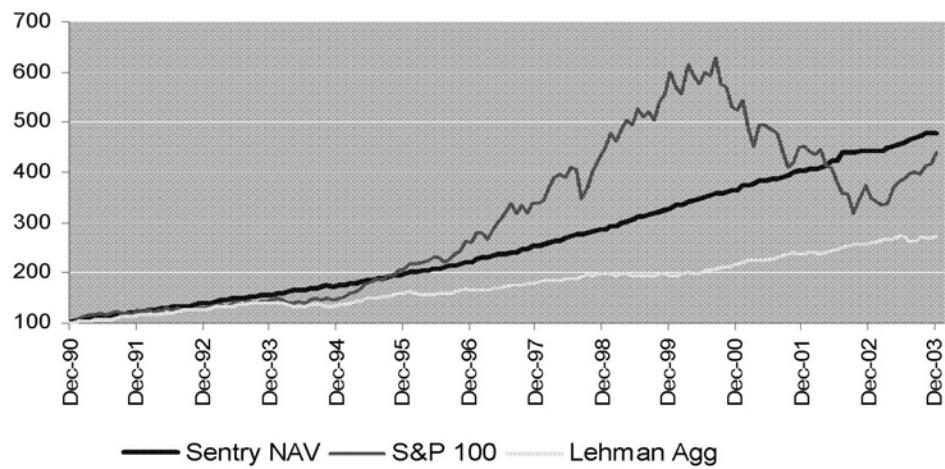


Figure VII: Unit Value Growth of Sentry vs. S&P 100 Index  
(From inception to December 31, 2003)



## Fairfield Sentry Fund

### Semi-Annual Update – Sentry Class A

Fourth Quarter, 2003

#### Seeding Initiative

As we have informed you in previous letters, the Sentry Seeding Initiative is designed to invest a small portion of the Fund's assets with experienced management teams seeking to establish new fund businesses, and is limited to an aggregate of no more than 5% of the Fund's assets. In December this year, Sentry redeemed \$18 million of the initial \$30 million seeding made on October 1, 2002 to Fairfield Redstone Ltd., resulting in a partial realization of trading profits earned in that strategy. Thus, currently the Fund has about 1.62% of net assets (or approximately \$72 million) invested with three Seedling Managers: Fairfield Redstone Ltd. ("Redstone"), Fairfield Schlarbaum Offshore Fund Ltd. ("Schlarbaum"), and EMF Corporate Bond Arbitrage Fund, Ltd. ("EMF") (collectively, the "Seedlings").

These managers have performed well since the inception of the Seeding Program on October 1, 2002 (see Figure VIII). Their performance has contributed approximately 24 basis points to Sentry's return, from inception of the Seeding Program to December 31, 2003. Figure VIII presents the performance of the Seedling managers against selected indices.

Figure VIII: Seedling Returns vs. Indices

	Q4 2003	2003 Annual	Risk <sup>*</sup>
<b>Redstone**</b>	3.69	22.37	6.80
Russell 2000	14.19	45.36	15.53
<b>Schlarbaum**</b>	3.23	(1.87)	4.30
S&P 600	14.53	37.53	14.64
<b>EMF**</b>	1.92	8.73	0.81
Lehman Agg	0.35	4.35	5.49

Source: FGG, Bloomberg

\* Risk is measured by trailing 12-month standard deviation

\*\* Seedling performance based on 0% / 20%

As many of our investors know, we continue to identify, analyze, and monitor a number of prospective managers for the Sentry Seeding Initiative. All managers with whom we partner must provide full transparency and strong levels of liquidity, and above all, share our core capital preservation, relative low volatility philosophy. As with FGG's other core funds, seedling managers must submit to our rigorous due diligence and risk monitoring processes.

\* \* \* \* \*

**Fairfield Sentry Fund**

**Semi-Annual Update – Sentry Class A**

**Fourth Quarter, 2003**

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For further details regarding the Sentry Seeding Initiative or Redstone, Schlarbaum, EMF, please consult FGG's Monthly Strategy Reviews, Monthly Portfolio Update Webcasts and transcripts, and other FGG publications available via the FGG Web site ([www.fggus.com](http://www.fggus.com)) and our automated FGG e-NAV reporting service, as well as from your FGG representative.

If you have any questions regarding the foregoing, please contact your FGG representative. We thank you for your support, and look forward to continuing to serve your alternative investing needs.

Sincerely,

Fairfield Greenwich (Bermuda) Ltd.

***Notes and Disclaimers***

Performance results for Fairfield Sentry Ltd. are for Class A shares and are net of all fees and expenses.

No information provided herein shall constitute, or be construed as, an offer to sell or a solicitation of an offer to acquire any security, investment product or service, nor shall any such security, product or service be offered or sold in any jurisdiction where such offer or solicitation is prohibited by law or regulation. Recipients of this document who intend to apply for shares in Fairfield Sentry Ltd. or any FGG Fund are reminded that any such application may be made solely on the basis of the information and opinions contained in such Fund's Offering Memorandum.

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